

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**  
**MINUTES OF THE JULY 19, 2006 PENSION BOARD MEETING**

1. Call to Order

Chairman Walter Lanier called the meeting to order at 8:45 a.m. in the Gordon Park Pavilion at 2828 North Humboldt Boulevard, Milwaukee, Wisconsin 53212.

2. Roll Call

Members Present:

Linda Bedford  
Donald Cohen  
Walter Lanier  
John Martin  
Marilyn Mayr  
Michael Ostermeyer  
John Parish  
Dean Roepke  
Thomas Weber

Members Excused:

None

Others Present:

Jack Hohrein, ERS Manager and Pension Board Secretary  
Vivian Aikin, ERS Administrative Specialist  
Ann To, Milwaukee County  
Steven Huff, Reinhart Boerner Van Deuren s.c.  
Leigh Riley, Foley & Lardner LLP  
Chris Trebatoski, Gonzalez, Saggio & Harlan LLP  
Brad Blalock, Mercer Investment Consulting  
Kristin Finney-Cooke, Mercer Investment Consulting  
Kim Nicholl, Buck Consultants  
Barrett Rodriguez, Vitech Systems  
Scott Larson, Vitech Systems  
Wayne Shiu, Vitech Systems  
Kevin Callahan, Adams Street Partners  
Jacqueline Swift, Adams Street Partners  
Joseph Smith, ING  
JT Straub, ING  
Louis Metz, Retiree  
Nancy Beck-Metz, Retiree  
Ken Loeffel, Retiree  
Michael Howden, Retiree

3. Approval of Minutes of June 21, 2006 Meeting

The Board requested that Section 10 of the minutes be amended to indicate that Mercer had reported a 9.6% (rather than 8.5%) earnings rate and that Buck recommended the payroll growth assumption be changed to 3.5% from 5.5% for ERS and to 3% from 5% for OBRA to bring the assumption into compliance with GASB 25.

**The Board reviewed and approved the minutes of the June 21, 2006 Pension Board meeting, as amended to indicate changes requested by the Board, 7-0-2 with Dr. Roepke and Mr. Ostermeyer abstaining due to their absence from the meeting. Motion by Mr. Martin, seconded by Mr. Cohen.**

4. Report of Retirement Systems Manager

(a) Ratification of Retirements Granted

Mr. Hohrein presented the schedule of Retirements Granted for the prior month's retirements and asked the Board to review them. He reported that there were \$1.242 million in back drop payments. Dr. Roepke inquired as to whether Patricia Haslbeck, Paul Mika or Diane Moore had submitted back DROP waivers. Mr. Hohrein indicated that those individuals were not on the list of people who had submitted waivers. In response to questions from Mr. Parish and others, Mr. Hohrein also indicated that he would make corrections to the dates of birth for Mary Hohlweck and Charlie Woodley.

The Chairman raised the issue of the effectiveness of the report and the Board's involvement in approving retirements. At Mr. Martin's suggestion, the Board discussed the possibility of making the retirements granted an informational report only or an audit item. Ms. Mayr noted that the report is also sent to the County Board Personnel Committee and is related to ERS's cash flow and liquidity.

**The Board unanimously approved the schedule of Retirements Granted. Motion by Mr. Martin, seconded by Mr. Cohen.**

(b) Report on Waivers

Mr. Hohrein reported that no new waivers had been submitted to the Retirement Office. He noted that all waivers were on file unless the waiver list indicated that a particular waiver had not been received. He also stated that the 25% bonus was only applicable to employees who were employed before 1982 so not every person on the list would need to submit such a

waiver. The Chairman clarified that the waivers report was for the Board's information only. Mr. Ostermeyer stated that the Board was not charged with a duty of compelling waivers. Because the submission of waivers is a unilateral act of the person waiving the benefit, Pension Board ratification is unnecessary. Ms. Mayr raised a concern that if waivers were not signed more money will flow out of ERS, reducing the assets in ERS. Mr. Ostermeyer stated that following up on receipt of waivers is not part of the Board's mandate under the Ordinances.

(c) Report on ADR Earnings and Recalculations.

Mr. Hohrein presented an update on issues regarding accidental disability retirement pensioners. He requested direction on how to proceed with enforcing the requirement that ADR pensioners submit financial information to the Retirement Office. He indicated that five of the ADR pensioners had not responded to requests for financial information. Mr. Huff reviewed the applicable Ordinances and Rules with the Board and suggested that the nonresponsive individuals be referred for reexamination in accordance with the Ordinances. Mr. Weber suggested options for ensuring that the notices of reexamination are received by recipients. Board members also discussed discontinuing benefits for individuals who do not respond to the reexamination request. Mr. Huff clarified that any retirees living out of state need not return to Wisconsin for the reexamination. Also, the Ordinances provide that ADR benefits can be discontinued if the retiree does not respond to a request for reexamination within the time set by the reexamination rules and then permanently terminated if the retiree does not submit to reexamination within one year.

**The Board unanimously agreed that the Retirement Office should require nonresponsive retirees to submit to medical reexamination under the applicable Ordinances and Rules and to proceed to discontinue benefits if the retiree does not respond. Motion by Dr. Roepke, seconded by Ms. Mayr.**

Mr. Hohrein also reported on recalculations for disability retirees at age 62. He indicated that in two cases there had been accidental overpayments which were being corrected by a pension offset. Mr. Hohrein stated that he had sent a letter explaining the benefit offset and the individuals have not objected to the recovery of the overpayments. The Board discussed a possible additional communication with the retirees to document a reasonable arrangement to recover the overpayments. Ms. Mayr and Mr. Cohen commented on the need to communicate with the retirees and

provide for recoveries in writing. Mr. Weber and Mr. Martin requested that Mr. Hohrein report on this issue at the next meeting.

**The Board unanimously agreed that the Retirement Office should contact the retirees, state the dollar amount to be recovered, including interest, and explain options for payment arrangements and terms. Motion by Dr. Roepke, seconded by Ms. Bedford.**

The Chairman suggested that the Audit Committee address these types of items.

(d) Implementation of New Technology Software – Vitech Systems.

Ms. To of Milwaukee County and Messrs. Rodriguez, Larson and Shiu of Vitech Systems presented a report to the Board regarding the V3 project status. They indicated that there were no firm dates for completion of the imaging process because there were more documents to image than originally anticipated. They indicated that Vitech and the Retirement Office were working together on the imaging. The Vitech representatives stated that they had agreed to provide 1.5 million images at the same cost as the 890,000 images originally contemplated. In response to a question from Dr. Roepke, Mr. Rodriguez stated that completing the imaging was not critical to maintaining the schedule for other functions because the imaging can continue during and after other functions are completed. In response to a question from the Chairman, Mr. Rodriguez explained that the status report included the former end dates for project stages in parenthesis and that the new revised dates were also included.

The Board also discussed staffing of the Retirement Office, which Vitech identified as the biggest challenge to completing the Vitech implementation on time. Mr. Hohrein reported that the Department of Human Resources had approved all staff time needed in the next two months for Vitech and Ceridian projects. He also reported that reorganization of the Retirement Office was underway.

The Board discussed the capability of the Retirement Office staff to keep the Vitech project moving and avoid additional delays. The Board also discussed how processes in the Retirement Office would be improved once the Vitech implementation was complete and how the staff would function with the new system.

Mr. Hohrein provided the Board with information regarding the search for a project manager to oversee and assist with the Vitech implementation. Mr.

Hohrein discussed significant concerns over the timely progress of the Vitech project without a project manager. Mr. Hohrein indicated that he had first explored adding an IMSD person to take direct employment with ERS, but he had found that no qualified candidate was available. He reported that one firm had quoted fees of \$100 per hour and Maximus had quoted a cost of \$400,000 to supply a manager. Mr. Hohrein told the Board that he had contacted six consulting firms pursuant to a request for contract process, but no proposals were submitted. He requested that the 2006 budget be increased to permit ERS to hire an independent contractor. The Board discussed concerns and options with respect to contract or part-time employees.

**The Board unanimously agreed to approve the request to increase the budget by \$30,000 to permit ERS to hire an independent contractor to assist in the Vitech implementation. Motion by Mr. Martin, seconded by Ms. Bedford.**

Mr. Metz raised questions regarding technical issues related to the implementation. Mr. Rodriguez assured the Board that Vitech was aware of these concerns.

(e) Buy In Requests

In response to a question from Dr. Roepke, Mr. Hohrein reported that 150 buy in requests had been received and that 50 of the requests had been completed. He indicated that the Retirement Office was cross training an employee to continue to process the requests and complete them by the end of the year.

5. Investments

(a) Investment Manager's Report.

(i) Adams Street Partners

Mr. Callahan and Ms. Swift made a presentation to the Board on behalf of Adams Street Partners. They provided an update on their organization and explained the interaction between the primary partnerships and direct investments. They described the focus on specialization by their employees and how their worldwide offices focus on investments in various countries.

Next, Mr. Callahan and Ms. Swift reported on Adams Street Partners' investment process and philosophy, including diversification, disciplined selection of private equity managers and consistent manager weighting. They also addressed target allocations, investment objectives and portfolio construction. Ms. Swift reviewed information regarding the ERS portfolios and described the "old" and "new" portfolios. She also addressed the performance of the Brinson Partnership Fund Trust Program and the Adams Street Partnership Fund Program.

(ii) ING

Mr. Straub and Mr. Smith addressed the Board on behalf of ING. They reviewed their organization and worldwide operations. Mr. Smith described ING's investment process and informed the Board that ING invests in institutional real estate managers that build, buy, sell and manage commercial real estate. He reviewed ING's two-step investment process of asset allocation and security selection.

The ING representatives reviewed the outlook for U.S. real estate securities and earnings growth expectations for 2006. They also addressed the current asset allocation and performance results for ERS. They indicated that they are cautiously optimistic because real estate fundamentals are healthy and improving, there has been a 7% earnings growth in 2006 and valuations are above historical averages. They also explained that dividends are likely to grow and that there will be an estimated fund flow of \$65 billion into private real estate funds in 2006.

In response to a question regarding location weighting from Ms. Bedford, Messrs. Straub and Smith agreed that it was important and explained geographic distribution of ERS's assets. They indicated that ERS has had an almost \$20 million return. Dr. Roepke inquired as to real estate downturns. The ING representatives explained that the Board had stayed with its investment in real estate through an out of favor period and was rewarded in total return over time for doing so.

(b) Committee Report on Small Cap Value Manager Search.

Ms. Finney-Cooke reported on the status of the search for a new small cap value manager. At its last meeting, the Investment Committee reviewed the qualifications of AQR and Opus. Ms. Finney-Cooke reviewed the

performance and sector distribution of each manager. She noted that Opus goes in and out of sectors, while AQR stays closer to the benchmark. She explained that the firms had very similar ratings. AQR has an A rating and Opus has an A- rating. She also compared each firm's vehicle type, fee schedule and Minority/Women's Business Enterprise ("MWBE") status, noting that Opus is an MWBE while AQR is not. She reviewed each firm's advantages and potential areas for concern. A major concern for Opus is that two of the three principals are husband and wife. Finally, she summarized Mercer's recommendation that the Board select AQR and provided supporting reasons.

The Board discussed the merits of each firm and the Investment Committee's review of each issue. Ms. Mayr noted that the Investment Committee recommended that the Board select AQR.

**The Board agreed to retain AQR as a small cap manager, 5-2-1, with Mr. Weber, Ms. Mayr, Dr. Roepke, Mr. Martin and Mr. Ostermeyer voting to approve, Mr. Parish and Ms. Bedford dissenting, and the Chairman abstaining. Motion by Dr. Roepke, seconded by Mr. Martin.**

Mr. Blalock suggesting letting AQR act as a transition manager and offered to explore that option by letting AQR review the current portfolio. Ms. Riley offered to prepare an investment agreement.

(c) Mercer Report.

Mr. Blalock addressed the Board's questions regarding ERS's rate of return raised by Buck and where the differences may come from. The Chairman requested that Mercer provide a written report regarding Mercer's suggestions for calculation of rates of return.

Mr. Blalock also presented the flash report for June 2006, noting that ERS had an aggregate market value of approximately \$1.5 billion at the end of June and had a flat return for the month. He stated that ERS had a 3.6% year-to-date increase, compared to the 3.7% composite market index. Mr. Blalock explained that the large cap domestic equity market gained 0.1% in June, while small cap equity gained 0.6%. Also, value outperformed growth in the large and small cap arenas. He also noted that international equity markets were steady for the month, investment-grade fixed income gained 0.2% and emerging market equities and high yield issues declined 0.2% and 0.4%, respectively.

Mr. Blalock also reported on ERS's investment allocation, noting that it is currently overweight in mid cap equity and high yield fixed income and underweight in core fixed income in comparison to the investment policy. Accordingly, he recommended withdrawing \$4 million from Artisan Partners and \$3 million each from Hotchkis & Wiley and EARNEST Partners to meet ERS's cash needs for July.

6. Cash Liquidity Report – Retirement System Fiscal Officer

Mr. Mueller presented the cash liquidity report. Mr. Blalock discussed liquidity needs with the Board. The Chairman requested that the Board review the applicable sections of the investment policy at a future meeting.

**The Board unanimously agreed to withdraw \$20 million from its mid cap managers for July and August liquidity needs. Motion by Mr. Martin, seconded by Mr. Parish.**

7. Annual Actuarial Report and Investment Earnings Analysis – Buck Consultants

Ms. Nicholl addressed the Board on behalf of Buck Consultants. She reviewed calculations regarding ERS's rate of investment return. To explain Buck's conclusion that ERS had an 8.3% rate of return for 2005, she reviewed the market value of ERS as of January 1, 2005, along with contributions, disbursements and investment return. She also noted that, on average, contributions received earn a half year's interest and benefits paid reduce the return by a half year's interest on benefits paid. She indicated that Buck could not explain the discrepancy between Buck's 8.3% calculation and Mercer's 9.6% figure. Mr. Blalock noted some differences in the amounts used in the calculation, to be reported in writing at the next meeting.

The actuarial valuation report was distributed to the Board members for review.

8. Audit and Compliance Committee Report

Mr. Hohrein presented the minutes of the July Audit and Compliance Committee meeting. He reported that Wayne Morgan and Darlene Middleman of Virchow Krause had reviewed with the Committee its draft management letter to the Board. He explained that comments in the letter were suggestions for improvement, not red flags raised by the audit. These comments included suggestions that the Board or Retirement Office implement a formal internal control system, a personnel disaster recovery system, a process for review of calculations and new audit standards. Mr. Hohrein also noted Mr. Morgan's suggestion that the Board



consider R.V. Kuehns for access to survey reports on other pension plans. The Board discussed the annual audit management letter and the audit function.

9. Closed Session

The Chairman stated that the Board could enter closed session for considering financial, medical, social or personal information, of which the Board has actual knowledge and which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of the person mentioned. For example, the Board may elect to enter closed session to discuss an individual's disability retirement application, which may entail discussions of, among other things, medical records of the applicant.

The Chairman also noted that the Board would enter closed session to confer with its legal counsel, who is rendering oral or written advice concerning strategy to be adopted with respect to litigation in which it is, or is likely to become, involved.

The Board agreed by roll call vote, 6-1-0, with Ms. Mayr dissenting, to enter closed session to consider Items 10 and 11. Ms. Mayr explained that she dissented to going into closed session to the extent public knowledge regarding litigation is to be discussed.

10. Disability Application – Gloria Thurman (Ordinary)

Upon returning to open session, the Board took the following action:

**Consistent with the recommendation of the Medical Board, the Board unanimously agreed to grant the ordinary disability application of Gloria Thurman. Motion by Mr. Martin, seconded by Mr. Parish.**

11. Legal Update

Closed session litigation matters were discussed in closed session.

12. Administrative Matters – Pension Board Retreat

The Chairman suggested a special meeting format for an upcoming meeting. At that meeting, regular business would not be conducted. Rather, topics important to assuring that the Board has the education it desires on topics important to its functions would be presented. He suggested that the meeting include a discussion of the Committee structure and the framework under which the Board operates. The Chairman noted that a special meeting might replace the regular Board meeting scheduled for August 16, 2006 because that date is already on Board

members' calendars. He noted that any such meeting must be an open meeting with notices to the public.

The Chairman stated that a meeting in a different location than the regular meeting place might be more conducive to the topics he contemplated. Ms. Mayr suggested that meeting in a more informal atmosphere would facilitate consideration of the topics. The Chairman indicated he would seek topics and asked that all suggested topics be sent to him. The Chairman asked Mr. Hohrein to search for a suitable location. Mr. Weber suggested having an open house so the Board can function in an atmosphere more suitable for the topics anticipated.

13. Adjournment

The meeting adjourned at 1:50 p.m.

Submitted by Steven D. Huff,  
Assistant Secretary to the Pension Board